

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W

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O 022027Z OCT 75

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC IMMEDIATE 5121

S E C R E T MOSCOW 14083

EXDIS

FROM ROBINSON

E.O. 11652 GDS

TAGS: ETRD, UR, US

SUBJ: SOVIET GRAIN/OIL NEGOTIATIONS

1. WE MET WITH PATOLICHEV AND THE SOVIET OIL EXPORT GROUP TODAY. IT IS CLEAR THAT THEY WILL RESIST CONCLUSION OF ANY FORMAL AGREEMENT IN WHICH THE APPEARANCE OF DISCOUNT PRICING COULD EMBARRASS THEM BOTH INTERNALLY AND EXTERNALLY. HOWEVER, PATOLICHEV CONTINUES TO IMPLY THAT SOME PRICE DISCOUNT COULD BE ARRANGED IF EFFECTIVELY CONCEALED. ALTHOUGH ADMITTING THE LINKAGE BETWEEN THE OIL AND GRAIN AGREEMENTS, HE CONTINUES TO STRESS THE NEED FOR MORE TIME TO CONCLUDE ANY FINAL AGREEMENT ON OIL BECAUSE OF ITS COMPLEXITY. HE APPEARS TO BE INTRIGUED WITH THE IDEA OF A LINKAGE THROUGH THE TRANSPORT OF OIL ON TANKERS EMPLOYED IN THE DELIVERY OF GRAIN, AND WE ARE USING THIS FOR MAXIMUM LEVERAGE. WE ARE ALSO HOLDING OUT THE POSSIBILITY OF BROADER COOPERATION BETWEEN THE U.S. AND USSR IN ENERGY WHICH COULD FOLLOW FROM AN INITIAL OIL SALES AGREEMENT. WE FINALLY AGREED THAT WE WOULD EXPLORE THE POSSIBILITY OF A LETTER OF INTENT ON OIL WHICH COULD BE SIGNED AT THE TIME OF EXECUTING THE GRAIN AGREEMENT.

2. THE IDEA OF SUCH A LETTER OF INTENT APPEARED TO BE ACCEPTABLE TO PATOLICHEV, ALTHOUGH WE ENGAGED IN AN EXTENDED
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ARGUMENT OVER THE QUESTION OF HOW WE WOULD REFER TO THE

PRICING UNDER THE PROPOSED OIL AGREEMENT. WE HAD HOPED TO INCORPORATE WORDS WHICH WOULD IMPLY A DISCOUNT FROM MARKET PRICES, WHEREAS PATOLICHEV WANTED WORLD MARKET PRICES STATED SPECIFICALLY AS OUR BASIS FOR PRICING. WE MUST OPPOSE THIS POSITION AND ARE HOPEFUL THAT AGREEMENT CAN BE REACHED ON A LESS SPECIFIC PRICE PROVISION ALONG LINES SUGGESTED BELOW.

3. WITH REGARD TO THE TACTICAL PLAN FOR HANDLING THE OIL AGREEMENT, WE MUST RECOGNIZE WHAT APPEARS TO BE A LIMITED BARGAINING LEVERAGE FROM THE LONG-TERM GRAIN AGREEMENT. ANY EFFORT ON OUR PART TO DELAY THE SIGNING OF THE GRAIN AGREEMENT UNTIL CONCLUSION OF A FIRM AGREEMENT ON OIL COULD HAVE A SERIOUS ADVERSE IMPACT ON OUR RELATIONSHIP. ACCORDINGLY, IT IS RECOMMENDED THAT WE ATTEMPT TO INITIAL A LETTER OF INTENT ON THE PURCHASE OF SOVIET OIL ALONG THE LINES SUGGESTED BELOW AT THE SAME TIME THAT WE INITIAL OR SIGN THE GRAIN AGREEMENT. THE TEXT OF THE PROPOSED LETTER OF INTENT ON OIL FOLLOWS. PLEASE COORDINATE WITH SEIDMAN, ZARB, ET AL., AND ADVISE AS PROMPTLY AS POSSIBLE.

BEGIN TEXT:

DEAR MR. MINISTER:

THIS IS TO CONFIRM THE UNDERSTANDING ARISING OUT OF OUR DISCUSSIONS OCTOBER 2-3 THAT OUR TWO GOVERNMENTS ARE PREPARED TO ENTER INTO AN AGREEMENT CONCERNING THE PURCHASE AND SHIPMENT OF SOVIET OIL. THIS AGREEMENT WILL PROVIDE FOR THE FOLLOWING:

1) THE GOVERNMENT OF THE USSR WILL OFFER FOR SALE ANNUALLY 10-12 MILLION METRIC TONS OF CRUDE OIL AND PETROLEUM PRODUCTS.

2) THE GOVERNMENT OF THE UNITED STATES MAY PURCHASE THE CRUDE OIL OR PETROLEUM PRODUCTS FOR ITS OWN USE OR AT ITS OPTION IT MAY PERMIT PURCHASE OF THE CRUDE OIL OR PETROLEUM PRODUCTS BY UNITED STATES' FIRMS.

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3) AT LEAST 70 PERCENT OF THE TOTAL QUANTITY OFFERED FOR SALE WILL BE CRUDE OIL. THE REMAINDER MAY BE PETROLEUM PRODUCTS, IN PARTICULAR DIESEL OIL AND NAPHTHA.

4) SOME PORTION OF THE CRUDE OIL OR PETROLEUM PRODUCTS WILL BE SHIPPED TO THE UNITED STATES, PARTICULARLY IN VESSELS USED TO TRANSPORT GRAIN FROM THE UNITED STATES TO THE SOVIET UNION.

5). SOME PORTION OF THE CRUDE OIL OR PETROLEUM PRODUCTS
MAY BE DELIVERED TO EUROPE OR OTHER AGREED MARKETING
AREAS.

6) PRICES FOR CRUDE OIL AND PETROLEUM PRODUCTS
WILL BE MUTUALLY AGREED UPON.

IN ADDITION TO THIS AGREEMENT IT IS FURTHER
UNDERSTOOD THAT BOTH GOVERNMENTS WILL WORK FOR THE
EXTENSION AND EXPANSION OF THE COOPERATIVE EFFORTS
ALREADY UNDERWAY IN THE FIELD OF ENERGY. SUCH EFFORTS
WILL BE PARTICULARLY DIRECTED TOWARDS THE FULLER
APPLICATION OF THE TECHNOLOGICAL CAPABILITY OF BOTH
COUNTRIES IN INCREASING ENERGY OUTPUT FROM EXISTING
SOURCES AND IN DEVELOPING NEW SOURCES OF ENERGY.

END TEXT.
STOESSEL

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NNN

Message Attributes

Automatic Decaptoning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, AGREEMENTS, NEGOTIATIONS, GRAINS
Control Number: n/a
Copy: SINGLE
Draft Date: 02 OCT 1975
Decapton Date: 28 MAY 2004
Decapton Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: KelleyW0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975MOSCOW14083
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750342-0627
From: MOSCOW
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751088/aaaadaqs.tel
Line Count: 134
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: SECRET
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: EXDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 11 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11 JUN 2003 by ShawDG>; APPROVED <29 OCT 2003 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SOVIET GRAIN/OIL NEGOTIATIONS
TAGS: ETRD, EWWW, UR, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006